

Message Text

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ORIGIN EA-09

INFO OCT-01 ISO-00 EUR-12 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 NEA-10 IGA-02 AID-05 COME-00 EB-07 FRB-03

TRSE-00 XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01

STR-04 CEA-01 ABF-01 FS-01 /114 R

DRAFTED BY EA/VLC:MHENDERSON/ASIA/DCS:TLEWIS:JY

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AID/INDOCHINA RESIDUAL:NROSNER

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R 040321Z MAR 76

FM SECSTATE WASHDC

TO AMEMBASSY VIENTIANE

INFO AMEMBASSY BANGKOK

AMEMBASSY CANBERRA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TOKYO

AMEMBASSY JIDDA

CINCPAC

C O N F I D E N T I A L STATE 052769

FOR POLAD

E.O. 11652: GDS

TAGS: EAID, EFIN, LA

SUBJECT: FEOF: ISSUES CONCERNING TERMINATION

REF: A. VIENTIANE 0489, B. VIENTIANE 0366, C. VIENTIANE
0321, D. VIENTIANE 0525, E. VIENTIANE 0514

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JIDDA PLEASE PASS ELLIOTT (USREP/JECOR) AT RIYADH

1. DEPARTMENT AND AID HAVE SUPPOSED THAT FEOF WOULD BE TERMINATED BY EXHAUSTION OF THE FUND RATHER THAN BY AGREEMENT AMONG PARTICIPANTS; THAT IS, FOLLOWING PROCEDURES OF ARTICLE 18, SUB-PARAGRAPH A OF THE 1975 CONFIDENTIAL LETTER INSTEAD OF SUB-PARAGRAPH B. REFERENCE A SUGGESTS THAT PROCEDURE BEING FOLLOWED ACCORDS WITH COURSE OF ACTION ENVISAGED BY SUB-PARAGRAPH A (EXHAUSTION) AND THAT DOLLAR BALANCE WILL IN FACT BE USED UP BY THE END OF MARCH. IN ANY EVENT, DEPARTMENT AND AID CONCUR IN EMBASSY'S VIEW THAT A PROMPT TERMINATION OF THE FUND IS IN OUR INTEREST. PLEASE KEEP US INFORMED OF THE STATUS OF FEOF'S DOLLAR ACCOUNT.

2. DISPOSITION OF THE KIP BALANCES IS STILL UNDER REVIEW HERE. WE ARE LEANING TO VIEW THAT ANY PART OF THESE BALANCES TO WHICH U.S. HAS A CLAIM SHOULD BE RETURNED TO US UPON TERMINATION OF THE FUND FOR USE BY THE EMBASSY FOR ITS LOCAL EXPENSES IN LAOS. FUNDS WOULD THUS REMAIN IN KIP IN A LAO BANK TO BE SPENT IN THE COUNTRY. IT IS NOT CLEAR WHETHER WE MUST OBTAIN AGREEMENT FROM THE OTHER DONORS TO OBTAIN THE RETURN OF THESE FUNDS TO US. FROM OUR READING OF THE AGREEMENTS AND CONFIDENTIAL LETTERS, HOWEVER, AND COGNIZANT OF THE FACT THAT THE FUNDS ARE IN LAO HANDS, IT DOES APPEAR THAT THE LAO WOULD HAVE TO CONCUR IN RETURN OF ANY FUNDS TO OUR CONTROL. WE RECOGNIZE FROM REF D THAT SUCH A CONCURRENCE MAY BE DIFFICULT BUT WOULD APPRECIATE YOUR FURTHER COMMENTS ON THIS POSSIBLE COURSE OF ACTION.

3. AS FOR THE AMOUNT OF FEOF KIP BALANCES, IF ANY, TO WHICH U.S. ACTUALLY HAS ANY CLAIM, REFERENCES HAVE BEEN REPEATED TO ELLIOTT (WHO IS NOW IN SAUDI ARABIA) IN AN EFFORT TO ELICIT MORE INFORMATION ABOUT FIGURES REFERRED TO BY HUNT (REF B, PARA 2). SO FAR, NO RESPONSE HAS BEEN RECEIVED FROM ELLIOTT. IN ANY EVENT, REVIEW OF FEOF AGREEMENTS FOR YEARS 1964 THROUGH 1975, AS WELL AS DISCUSSION WITH AID OFFICERS, RAISES CERTAIN QUESTIONS ABOUT HUNT'S CALCULATION OF 1.2 BILLION KIP BALANCE HE ATTRIBUTES TO U.S. WE SUGGEST EMBASSY REVIEW THESE
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QUESTIONS WITH HUNT, FOCUSSED ON HIS REASONS FOR BELIEVING THE 1.2 BILLION ATTRIBUTABLE TO U.S. CONTRIBUTIONS:

A. FEOF AGREEMENTS FOR YEARS 1964 THROUGH 1971, ALTHOUGH PROVIDING FOR WITHDRAWAL OF FEOF KIP BY OTHER DONORS, ESPECIALLY FRANCE AND JAPAN, MAKE NO REPEAT NO PROVISION FOR U.S. WITHDRAWAL OF FEOF KIP. U.S. MADE ARRANGEMENTS FOR KIP PURCHASE THROUGH FEOF IN SOME OF THOSE YEARS, BUT THIS TO ALL APPEARANCES WAS SEPARATE

MATTER. THUS, BASIS FOR ASSIGNING TO U.S. ANY OF KIP GENERATED IN THOSE YEARS, IN MANNER KIP ASSIGNED TO OTHER DONORS, IT NOT CLEAR.

B. AGREEMENTS FOR 1972 AND 1973 PROVIDE FOR WITHDRAWAL BY U.S. OF UP TO 30 PERCENT OF KIP COUNTERPART OF U.S. CONTRIBUTION, FOR PROJECT SUPPORT AND SIMILAR PURPOSES. IMPRESSION HERE, HOWEVER, IS THAT SUCH KIP WERE FULLY DRAWN AND UTILIZED PRIOR TO INSTITUTION OF KIP PURCHASES BY U.S. FROM FEOF WITH PROJECT DOLLARS IN APPROXIMATELY SECOND QUARTER OF CY 1974. THUS, BASIS FOR ATTRIBUTING ANY CURRENT U.S. BALANCE OF FEOF KIP TO THESE YEARS IS NOT CLEAR EITHER.

C. APPROPRIATENESS OF EXCHANGE RATES USED BY HUNT TO CALCULATE KIP ATTRIBUTABLE TO OTHER DONORS' CONTRIBUTIONS AND THEREBY TO DERIVE U.S. KIP AS RESIDUAL IS OPEN TO QUESTION. SINCE THERE WAS LIMITED UPWARD TENDENCY IN FEOF EXCHANGE RATE IN EARLY YEARS, AS REFLECTED IN FIGURES CITED REF B, PARA 2, AND SINCE PRESUMABLY THERE WAS SOME INTERVAL BETWEEN DEPOSIT AND SALE OF CONTRIBUTIONS, UNDERSTATEMENT OF KIP GENERATION BY OTHER DONORS' CONTRIBUTIONS MIGHT BE EXPECTED, EVEN IF NOT IN FULL AMOUNT OF 1.2 BILLION. (RLG CONTRIBUTION OF 2.8 MILLION DOLLARS IN 1965 PLUS U.S. KIP PURCHASE ARRANGEMENT, WHICH INVOLVED PASSING DOLLARS THROUGH RLG, MAY HAVE BEEN COMPLICATING FACTORS.)

4. DISPOSITION OF PHYSICAL ASSETS OF FEOF IN LAOS AS PROPOSED REF A IS APPROVED.

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5. FINAL INSTRUCTIONS ON DISPOSITION OF PROFIT-AND-LOSS ACCOUNT AND ALL KIP BALANCES INCLUDING CY 1975 WILL BE FORWARDED SHORTLY. IN THE MEANTIME, WE WOULD WELCOME YOUR COMMENTS ON ABOVE AS WE COMPLETE OUR CONSULTATIONS WITH AID OFFICERS HERE AND ALSO WITH POLITICAL COUNSELOR TEARE NOW VISITING WASHINGTON. KISSINGER

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